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FOR MARIANNE SPIEGEL ONLY

E.O. 11652: GDS-1

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SUBJECT: PENSIONS, PROPERTY RIGHTS AND ZIMBABWE DEVELOPMENT
FUND

JUDGING FROM THE REPORTS OF THE GRAHAM-LOW TALKS, ASSUR-
ANCES OF ECONOMIC SECURITY FOR THE WHITES ARE ESSENTIAL TO
ANY SETTLEMENT FROM THE POINT OF VIEW OF THE SMITH REGIME.
THEY ARE MOST DIFFICULT TO JUSTIFY FROM THE POINT OF VIEW OF
THA NATIONALISTS. THE PURPOSE OF THIS MEMO IS TO OUTLINE
WHAT MIGHT BE SOME OF THE MAIN PROBLEMS IN THIS AREA IN YOUR
UPCOMING NEGOTIATIONS AND SOME WAYS IN WHICH THEY MIGHT BE
RESOLVED.

LINKING THE ZIMBABWE DEVELOPMENT FUND TO PENSIONS AND
PROPERTY RIGHTS

OWEN SEEMS TO PUT ALOT OF FAITH IN LINKING THE ZIMBABWE
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DEVELOPMENT FUND TO THE INDEPENDENT GOVERNMENT'S HONORING
PENSIONS AND PROPERTY RIGHTS. IN SOME WAYS, THIS MAKES
SENSE. IF IT DOES PUMP \$250 MILLION A YEAR INTO THE
BIMBABWE ECONOMY FOR FIVE YEARS, THE INTERNATIONAL DONOR
COMMUNITY WILL BE GIVING THAT RELATIVELY RICH COUNTRY FAR
MORE ASSISTANCE THAN IT WOULD NORMALLY RECEIVE. (BY CON-
TRAST, MOZAMBIQUE -- A POORER COUNTRY HALF AGAIN AS LARGE
AS RHODESIA -- HAS RECEIVED ONLY \$20 MILLION DEVELOPMENT
ASSISTANCE SINCE INDEPENDENCE.) THIS ASSISTANCE COULD PROVE
A SIGNIFICANT INCENTIVE TO MEET THE FINANCIAL OBLIGATIONS

OUTLINED IN THE CONSTITUTION, AS WELL AS PROVIDE RESOURCES FOR DEVELOPMENT PROJECTS THAT WOULD HELP MEET THE EXPECTATIONS OF AFRICANS WITHOUT DEPRIVING WHITES. BY TYING THE FUND TO ECONOMIC GUARANTEES, THE WESTERN COUNTRIES ARE INDIRECTLY TAKING CARE OF THE WHITE RHODESIANS, WHICH AFRICAN LEADERS HAVE SAID WAS MORE A RESPONSIBILITY OF BRITAIN THAN OF THE BLACKS.

HOWEVER, TOO MUCH EMPHASIS MAY HAVE BEEN PUT ON THE FUND AS THE GUARANTEE OF WHITE ECONOMIC SECURITY. FOR A NUMBER OF REASONS, THE DIRECT COSTS OF MEETING THE ECONOMIC OBLIGATIONS IN THE PROPOSED CONSTITUTION MAY BE GREATER THAN THE INCOME FUND. IT IS PROVIDING \$100 MILLION A YEAR FOR ONE AFRICAN COUNTRY. WE DO NOT YET HAVE COMMITMENTS FROM OTHER DONORS -- BUT THEY MAY NOT WANT TO PROVIDE MORE FOR ZIMBABWE THAN THEY WOULD FOR OTHER DEVELOPING COUNTRIES. EVEN IF THE FUND IS AT THE LEVEL PROPOSED, THERE IS SOME DOUBT IT COULD BE OBLIGATED AT A RATE OF \$250 MILLION A YEAR.

WE DO NOT HAVE PRECISE FIGURES ON THE POSSIBLE COST TO THE GOVERNMENT OF THE ECONOMIC GUARANTEES IN THE CONSTITUTION. HOWEVER, THE RHODESIANS ESTIMATED THAT IF 25% OF THE CONFIDENTIAL

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CIVIL SERVICE AND ALL THE UNIFORMED SERVICES WERE TO LEAVE THEIR JOBS IN THE FIRST YEAR, THE COMMUTATION COST WOULD BE \$140 MILLION, AND THEY ESTIMATED ANNUAL PENSION PAYMENTS AT APPROXIMATELY \$70 MILLION. AN AID STUDY ESTIMATED THAT IF THE GOVERNMENT WANTED TO RESETTLE 75,000 AFRICAN FARMERS IN A YEAR (FROM A POPULATION OF 3.5 MILLION IN THE TRIBAL TRUST LANDS), IT WOULD REQUIRE TRANSFER OF 1500 EUROPEAN FARMS AT A COST OF \$250 MILLION. THE COST OF PAYING PENSIONS AND PROVIDING COMPENSATION FOR NATIONALIZED FARMLAND IS GOING TO BE HIGH, PERHAPS HIGHER THAN THE ANNUAL INCOME FROM THE ZDF. IN THE PAST, NATIONALIST BACKERS HAVE EXPRESSED CONCERN THAT IF THE FUND WERE LOAN RATHER THAN GRANT, THE NATION WOULD START OUT HEAVILY IN DEBT. THIS IS ANOTHER "COST" OF THE FUND GUARANTEES PACKAGE THE LEADERS OF ZIMBABWE WILL HAVE TO CONSIDER.

IT MAY THEREFORE BE HELPFUL IN THE TALKS TO RELY LESS ON THE ZDF-ECONOMIC ASSURANCES LINK AND MORE ON THE BENEFIT TO THE ZIMBABWE ECONOMY OF RETAINING CIVIL SERVANTS AND WHITE FARMERS. IT WOULD ALSO HELP TO EXPLORE POSSIBILITIES FOR GREATLY INCREASING AFRICAN OPPORTUNITIES IN AGRICULTURE AND THE CIVIL SERVICE WHILE PROVIDING SECURITY FOR THE WHITES.

PENSIONS:

ONE THING THAT THE RHODESIANS AND THE NATIONALISTS AGREE

ON IS THAT THE BRITISH SHOULD PAY THE RHODESIAN CIVIL SERVANTS' PENSIONS. FOR THE RHODESIANS, THOS WOULD PROVIDE A DEGREE OF SECURITY THAT NO AGREEMENT FROM THE NATIONALISTS COULD GIVE THEM. THE NATIONALISTS HAVE ARGUED THAT IT WOULD BE POLITICALLY DIFFICULT FOR THEM TO JUSTIFY PAYING THE PENSION OF "SERGEANT SO-AND-SO," REWARDING THE CIVIL SERVANTS WHO HAVE CHOSEN TO SERVE AN ILLEGAL, MINORITY REGIME.

UK REPRESENTATIVES HAVE ARGUED THAT BRITAIN COULD NOT
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AFFORD TO PAY THE PENSIONS; THAT TO USE THE ZIMBABWE DEVELOPMENT FUND TO GUARANTEE THE PENSIONS WOULD TIE UP THE ENTIRE FUND; THAT THERE IS NO PRECEDENT FOR BRITAIN ASSUMING RESPONSIBILITY FOR THE PENSIONS OF THE "INDIGENOUS CIVIL SERVICE" IN THE COLONIES; AND THAT ITS RESPONSIBILITY FOR PENSIONS DURING THE 12 YEARS OF UDI IS "LESS THAN NIL." ON THE OTHER HAND, THEY HAVE MAINTAINED THAT THE NEW GOVERNMENT MUST ASSUME THE OBLIGATIONS OF THE OLD -- AND THAT INCLUDES PENSIONS.

THIS ISSUE IS PARTICULARLY IMPORTANT TO THE RHODESIANS. ACCORDING TO ONE AID STUDY, CENTRAL GOVERNMENT CIVIL SERVANTS AND THEIR SPOUSES MAKE UP ONE THIRD OF THE WHITE ELECTORATE. TOGETHER WITH THE POLICE AND MILITARY, ALSO COVERED IN THE PENSIONS GUARANTEES, THEY MAKE UP A MAJORITY OF THE WHITE ELECTORATE.

THE ORIGINAL RHODESIAN PROPOSALS ON PENSIONS WERE QUITE DEMANDING: THAT THOSE WHO CHOSE COULD LEAVE ONE INDEPENDENCE DAY WITH THEIR PENSIONS; THAT THOSE WHO REMAINED ONE YEAR COULD RECEIVE THEIR PENSIONS 1/9, TWO YEARS - PENSIONS 2/9, 3 YEARS - PENSIONS 1/3; THAT ANYONE DISMISSED IN THE FIRST THREE YEARS WOULD RECEIVE PENSION 1/3 6 MONTHS SEVERANCE PAY 3 MONTHS NOTICE OR SALARY INSTEAD; THAT THERE BE PERMANENT GUARANTEES OF PENSIONS AGAINST INFLATION AND DISCRIMINATORY TAXATION; THAT THE PENSIONS BE PAYABLE OUTSIDE RHODESIA AND TIED TO A STABLE CURRENCY; AND THAT THE UK WOULD PAY PENSIONS IN CASE OF DEFAULT.

POSSIBLE ALTERNATIVES:

IF THE NATIONALISTS CONTINUE TO RESIST ASSUMING PENSION OBLIGATIONS, OR IF THE WHITES CONTINUE TO INSIST THAT THE
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UK/US PROPOSALS DO NOT GIVE THEM ENOUGH SECURITY, THE FOLLOWING ALTERATIONS MIGHT BE CONSIDERED.

1. SOME BRITISH SHARE IN THE PENSION GUARANTEE. AT ONE

POINT, THE BRITISH CONSIDERED GUARANTEEING THE PENSIONS THEMSELVES, REDUCING THEIR CONTRIBUTION TO THE ZIMBABWE DEVELOPMENT FUND CORRESPONDINGLY. UNDOUBTEDLY, THE BRITISH DISCOVERED THE PENSIONS RESPONSIBILITIES WOULD BE GREATER THAN THE BRITISH CONTRIBUTION TO THE ZIMBABWE DEVELOPMENT FUND; AND THIS IDEA WAS DROPPED.

HOWEVER, ONE VARIATION PROPOSED BY ONE OF THE NATIONALISTS WAS THAT THE BRITISH ASSUME RESPONSIBILITY FOR PENSIONS COVERING THE 12 YEARS OF UDI. THEY ARGUED THAT IT IS POLITICALLY MOST DIFFICULT FOR THEM TO JUSTIFY PAYING PENSIONS DURING THIS PERIOD. AS A PRECEDENT FOR THIS, THE BRITISH ARE PROPOSING THAT THE NEW GOVERNMENT ASSUME THE FOREIGN DEBTS OF THE OLD ONLY UP TIL UDI -- THOUGH IT IS EXPECTED TO ASSUME ALL INTERNAL DEBTS (E.G., TO A RHOESIAN CONTRACTOR WHO BUILT A ROAD.) MUGABE ARGUES THAT THERE SHOULD BE A FURTHER DISTINCTION BETWEEN INTERNAL DEBTS FOR INFRASTRUCTURE AND INTERNAL DEBTS FOR PENSIONS. PERHAPS THE COST WOULD NOT BE PROHIBITIVE OF THE UK (POSSIBLY WITH SOME U.S. HELP) ASSUMING RESPONSIBILITY FOR PENSIONS FOR THE 12 YEARS OF UDI.

2. ANOTHER SHARING FORMULA THAT MIGHT BE TRIED WOULD BE FOR THE UK, PERHAPS WITH HELP FROM THE U.S. TO ASSURE PENSION OBLIGATIONS TO THE RHODESIAN ARMED SERVICES. THIS IS LIKELY TO BE THE MOST OFFENSIVE ASPECT OF PENSION GUARANTEES TO THE NATIONALISTS. IT COULD BE MANAGEABLE FOR THE UK, WHERE THE FULL PENSIONS COST WOULD NOT.

3. TRANSFERABILITY. AT PRESENT, ANNUAL PENSION PAYMENTS ARE REMITTABLE ABROAD, BUT COMMUTATION IS NOT. (A RETIRING EMPLOYEE MAY TAKE UP TO 1/3 HIS PENSION IN COMMUTATION.)

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TATION.) ACCORDING TO THE BRITISH PROPOSAL, THERE WILL BE ASSURANCES THAT ALL PENSION PAYMENTS WILL BE TRANSFERABLE FOR THOSEWHO ARE FORCED TO RESIGN BECAUSE OF AFRICANIZATION.

THE PENSIONS OBLIGATIONS WOULD CAUSE LESS STRAIN ON FOREIGN EXCHANGE RESERVES IF THE PRESENT TRANSFERABILITY PROVISIONS WERE RETAINED. (AS NOTED ABOVE, THE RHODESIANS FIGURE THE COMMUTATION COST ALONE IN THE FIRST YEAR TO BE \$140 MILLION.) COMMUTATION LUMP SUMS, LIKE ALL OTHER ASSETS, WOULD BECOME GRADUALLY MORE TRANSFERABLE AS THE ECONOMY RECOVERED FROM THE WAR AND SANCTIONS, AND THE CURRENCY MOVED TOWARD CONVERTABILITY.

4. A NON-PENSIONS FORM OF GUARANTEE FOR RHODESIAN CIVIL SERVANTS THAT I HAVE HEARD MENTIONED IS THAT THE BRITISH WOULD FIND JOBS FOR THEM IN THE UK OR ELSEWHERE. PERHAPS SOMETHING COULD BE WORKED OUT WHERE MANY WOULD RECEIVE JOB ASSURANCE IN LIEU OF COMMUTATION WHEN LEAVING

RHODESIA.

5. THE RHODESIAN ESTIMATE OF PENSION COST ASSUMED ALL THE ARMED SERVICES AND 1/4 OF THE CIVIL SERVICE WOULD BE REPLACED. TO THE EXTENT THAT SOME OF THE RHODESIAN ARMY IS RETAINED BY THE ZIMBABWE GOVERNMENT, THIS COST WILL BE LESS.

PROPERTY:

WHERE PENSIONS GUARANTEES WILL BE A MAJOR CONCERN FOR MUCH OF THE WHITE POPULATION, THE MAJORITY OF THE AFRICAN POPULATION WILL BE CONCERNED ABOUT ACCESS TO LAND. THE RHODESIAN GOVERNMENT HAS ALLOCATED THE BEST HALF OF THE FARMLAND TO THE WHITES, WHO REPRESENT LESS THAN 1 OF THE FARMING POPULATION. TO CORRECT THIS IMBALANCE AND ALLEVI-
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ATE OVERCROWDING ON THE TRIBAL TRUST LANDS, THE NEW GOVERNMENT WILL HAVE TO UNDERTAKE MAJOR LAND REDISTRIBUTION. PAYMENT FOR NATIONALIZED FARMLAND COULD BE EXPENSIVE AND CONTROVERSIAL.

DIMENSIONS OF THE PROBLEM:

THE EUROPEANS HAVE BEEN ASSIGNED HALF THE LAND IN RHODESIA -- 71 OF THE CLASS-1 LAND AND 69 OF THE CLASS-2 LAND. MOST OF THE AFRICAN HALF OF THE LAND IS ONLY MARGINAL OR SUB-MARGINAL FOR CROP PRODUCTION. WHERE THE AVERAGE EUROPEAN FARM IS 5300 ACRES ON THE TRIBAL TRUST LANDS, THERE IS AN AVERAGE OF 6-8 ACRES OF ARABLE LAND PER FAMILY. WHERE THERE ARE ONLY 6,000 WHITE FARMERS, AND LESS THAN 10 OF THE WHITE POPULATION LIVES ON FARMS, THERE ARE 3.5 MILLION AFRICANS LIVING ON THE TRIBAL TRUST LANDS -- 60.1 OF THE POPULATION. THE AFRICANS ARE ENGAGED PRIMARILY IN SUBSISTANCE FARMING. THEY MARKET 25 OF THEIR OUTPUT, WHERE THE EUROPEANS MARKET 80 OF THEIRS. YET, BECAUSE OF INCREASING OVERCROWDING IN THE TRIBAL TRUST AREAS, THE CAPACITY OF THESE FARMERS TO FEED THEIR OWN FAMILIES HAS DIMINISHED TO A CRITICAL LEVEL. ACCORDING TO ONE AID STUDY, IN SOME YEARS 75 OF THE AFRICAN FARMERS DO NOT PRODUCE ENOUGH TO MEET THEIR OWN FOOD NEEDS. IN ADDITION TO HAVING FAR MORE AND FAR HIGHER QUALITY LAND THAN THE AFRICANS, THE WHITES ALSO ARE PROVIDED WITH EXPENSIVE EXTENSION SERVICES AND LARGE SUBSIDIES.

AT INDEPENDENCE, THERE WILL BE PRESSURE FOR ACCESS TO WHITE-HELD LAND NOT ONLY FROM THESE FARMERS OVERCROWDED ON THE TRIBAL TRUST LANDS, BUT ALSO FROM "WAGE-EARNERS." THIRTY-SIX PERCENT OF THE AFRICAN WAGE LABOR FORCE WORKS ON EUROPEAN FARMS FOR EXTREMELY LOW PAY. THE NEXT LARGEST WAGE-EARNING SECTOR -- WITH APPROXIMATELY A THIRD THE NUMBER OF EMPLOYEES -- IS DOMESTIC SERVANTS. MOST OF THESE

PEOPLE HAVE FAMILY FARMS AS WELL AS THEIR JOBS; AND MANY
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WANT A REASONABLE SIZE FARM RATHER THAN THEIR CURRENT LOW
WAGES.

THE COSTS OF PURCHASING WHITE FARMLAND, RESETTLING
AFRICAN FARMERS, AND PROVIDING THEM WITH ALL THE NECESSARY
SERVICES AND INPUTS WILL BE EXTREMELY HIGH.

SOME IDEAS ON DEALING WITH THIS ISSUE:

1. THE BRITISH PROPOSAL PROVIDES FOR THE GOVERNMENT
PAYING LESS FOR "UNDEVELOPED" WHITE FARMLAND THAN DEVELOPED.
IT STATES THAT THE COST WILL BE ONLY PURCHASE PRICE
PHYSICAL IMPROVEMENTS. ACCORDING TO ONE STUDY, APPROXI-
MATELY A QUARTER OF THE ARABLE EUROPEAN LAND IS PROBABLY
NOW UNDER CULTIVATION. MUCH OF THE REMAINING 3/4 IS PROBA-
BLY "UNDEVELOPED" AND COULD BE PURCHASED AT THE REDUCED
RATES.

2. APPARENTLY THE GOVERNMENT ITSELF STILL HOLDS SOME
LAND. I HAVE NOT SEEN FIGURES ON HOW MUCH. BUT IT WILL
BE THE PROPERTY OF THE NEW GOVERNMENT WHEN IT TAKES OVER
AND COULD PERHAPS BE IMMEDIATELY DISTRIBUTED TO AFRICAN
FARMERS.

3. FOR MANY REASONS, THE COST OF WHITE FARMS COULD GO
DOWN AFTER INDEPENDENCE BECAUSE OF A DESIRE TO SELL. THE
COMBINATION OF INEVITABLE DEMANDS FOR INCREASED WAGES AND
AN END TO SPECIAL SUBSIDIES COULD CAUSE ALOT OF WHITE FARMS
TO GO ON THE MARKET RIGHT AWAY, DRIVING DOWN THE PRICE.

4. IN BRACKETS, THE BRITISH PROPOSE AS PART OF CONSTI-
TUTIONAL GUARANTEES OF PROPERTY RIGHTS A GUARANTEE THAT
COMPENSATION FOR NATIONALIZED PROPERTY "MAY BE REMITTED
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ABROAD WITHIN A REASONABLE PERIOD." NATIONALISTS WITH
WHOM THIS WAS RAISED SPECIFICALLY REJECTED THIS PROPOSAL.

THE FOREIGN EXCHANGE COST OF NATIONALIZATION WOULD BE
GREATLY REDUCED IF THE COUNTRY WERE ALLOWED TO CONTINUE
UNDER THE CURRENT FOREIGN EXCHANGE CONTROLS, FOR THE PUR-
POSE OF TRANSFERRING COMPENSATION FOR NATIONALIZATION AS
WELL AS OTHER CAPITAL ASSETS. AT PRESENT, A FAMILY MAY
TAKE OUT OF THE COUNTRY A MAXIMUM OF \$1,600 AND PERSONAL
PROPERTY. INDEED, IF THIS CURRENCY CONTROL IS NECESSARY
UNDER THE CURRENT CONDITIONS, IT IS HARD TO SEE HOW IT CAN
BE REMOVED IN THE FIRST YEAR OF INDEPENDENCE, WITH ALL

THE ECONOMIC ADJUSTMENTS THAT WILL HAVE TO BE MADE. GUAR-
ANTEES THAT LARGE AMOUNTS OF CAPITAL MAY BE TRANSFERRED
ABROAD ARE PROBABLY UNREALISTIC, EVEN IWTH THE ZIMBABWE
DEVELOPMENT FUND. CHRISTOPHER

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